COUNTY OF SAN LUIS OBISPO BOARD OF SUPERVISORS
AGENDA ITEM TRANSMITTAL

(1) DEPARTMENT Planning and Building	(2) MEETING DATE 6/2/2015	(3) CONTACT/PHONE Emma Schoppe, Planner I / (805) 781-5982	
(4) SUBJECT Submittal of a report on residential energy efficiency financing options. All Districts.			
(5) RECOMMENDED ACTION It is recommended that the Board receive and file this report on residential energy efficiency financing options.			
(6) FUNDING SOURCE(S) N/A	(7) CURRENT YEAR FINANCIAL IMPACT $0.00	(8) ANNUAL FINANCIAL IMPACT $0.00	(9) BUDGETED? Yes
(10) AGENDA PLACEMENT { } Consent { } Presentation { } Hearing (Time Est. ___) { X } Board Business (Time Est. _30 mins._)			
(11) EXECUTED DOCUMENTS { } Resolutions { } Contracts { } Ordinances { X } N/A			
(12) OUTLINE AGREEMENT REQUISITION NUMBER (OAR) N/A		(13) BUDGET ADJUSTMENT REQUIRED? BAR ID Number: { } 4/5 Vote Required { X } N/A	
(14) LOCATION MAP N/A	(15) BUSINESS IMPACT STATEMENT? No	(16) AGENDA ITEM HISTORY { } N/A Date: 12/8/09 (California First); 4/1/14 (empower Agreement)	
(17) ADMINISTRATIVE OFFICE REVIEW Lisa Howe			
(18) SUPERVISOR DISTRICT(S) All Districts			

County of San Luis Obispo

TO: Board of Supervisors

FROM: Emma Schoppe, Planner I

VIA: Trevor Keith, Deputy Director, Policy and Programs

DATE: 6/2/2015

SUBJECT: Submittal of a report on residential energy efficiency financing options. All Districts.

RECOMMENDATION

It is recommended that the Board receive and file this report on residential energy efficiency financing options.

DISCUSSION

Upfront costs are a significant impediment to residential property owners who want to make energy efficiency home improvements. Various types of loans and financing options are currently available to homeowners in San Luis Obispo County wanting to do energy efficiency projects. San Luis Obispo County homeowners who currently want to make energy efficiency upgrades have various options for financing those improvements:

- They may use traditional private financing options, such as refinancing their home or taking out a home equity line of credit.

- They may participate in the County-administered emPower program, which can include an unsecured loan from Coast Hills Credit Union.

In addition to these options, California law authorizes municipalities to establish another program – Property Assessed Clean Energy (PACE). PACE provides an opportunity to finance energy upgrades by placing a special tax assessment on the benefitted property. For a variety of reasons, San Luis Obispo County does not currently have a residential PACE program. Recent developments in PACE programs, however, have renewed interest among cities and counties throughout California.

This staff report provides information regarding emPower, PACE, and other energy efficiency financing options. Additionally, this report outlines the opportunities and constraints of pursuing a PACE residential financing program in the county. The options discussed herein are not mutually exclusive, and it is both possible and beneficial to provide residential property owners with a variety of options for financing energy efficiency projects. When responsibly implemented, a diversity of financing programs can contribute to a reduction in energy usage and greenhouse gas emissions in accordance with state and local mandates, enhance home and building performance, and promote regional economic development.

<u>emPower San Luis Obispo</u>

On April 1, 2014, your Board approved the emPower Agreement from Santa Barbara County to deliver the emPower Energy Efficiency Program in San Luis Obispo County. emPower was developed by the County of Santa Barbara to help County homeowners overcome obstacles to making energy saving improvements to their homes. Program services for homeowners include access to local customer support, personalized home efficiency advice, quality-assured contractors, utility incentives, and financing. emPower also coordinates local workforce development opportunities, including training, engagement activities, media exposure, and generates leads to support contractor sales. Since the emPower program launch in August 2014, it has attracted over 1,200 County residents to inquire about services to improve their home's comfort, safety, and energy efficiency. Within this time, the emPower team has hosted seven educational workshops on residential energy efficiency, presented at 30 community events to promote the program, and coordinated three local training programs for local building professionals to receive energy efficiency and safety training or certification. Twelve contractors and building professionals are currently enrolled and participating in the program. In addition, the emPower Energy Coach has provided 107 homeowners throughout the County with a free energy assessment to help them understand the energy retrofit opportunities in their homes. Based on the Energy Coach visit and education and outreach efforts, there are 58 active homeowners in the program and twelve energy efficiency projects have been completed with an average job cost of $23,942.

<u>emPower Loan</u>
The emPower Home Upgrade Loan is available to San Luis Obispo County single-family detached homeowners for eligible projects through Coast Hills Credit Union. The loan is unsecured, meaning it is issued and supported by the borrower's creditworthiness rather than by a type of collateral, such as property. The loan's interest rate starts at 5.9% for FICO scores of 590 and above, for a term of up to 15 years. There are no pre-payment or closing fees associated with the loan. The emPower loan is complemented by a $20 million loan loss reserve with Coast Hills. The County of Santa Barbara contributed $1 million of American Recovery and Reinvestment Act (ARRA) grant funds to the reserve, leveraging private to public funds 20:1.

The emPower Home Upgrade Loan is used primarily to finance energy efficiency projects; renewable energy generation is only covered in tandem with energy conservation measures, and water efficiency projects are not eligible. For more information on the emPower program see Attachment A.

<u>Property Assessed Clean Energy</u>
Property Assessed Clean Energy (PACE) is a financing mechanism that allows property owners to finance eligible energy and water efficiency, and renewable energy projects, by adding the cost as an assessment to the property tax bill. This mechanism eliminates upfront costs and allows repayment to be made over a long timeframe—typically from five to twenty years.

In California, Assembly Bill (AB) 811 and Senate Bill (SB) 555 provide the framework for PACE financing. AB 811 was signed by Governor Schwarzenegger on July 21, 2008 and authorizes municipalities to designate areas in which property owners can contract with the municipality to finance the installation of renewable energy systems and/or energy or water efficiency improvements that are fixed to the property and not the owner. The loans are repaid as an item on the property owner's property tax bill. An amendment to the Mello-Roos Act (1982), SB 555 was signed into law in October 2011 and allows property owners to elect to annex property into a special tax district and pay special taxes. The municipality operating the district can then sell bonds payable from this special tax to investors, and proceeds from the bond sale are used to finance renewable energy and/or energy or water efficiency projects. The fundamental difference is that projects funded via AB 811 must be in an existing building and on private land, while SB 555 can be used on public or private property and can be used to finance new projects or refinance old ones. Similar to other assessment districts, both AB 811 and SB 555 follow the principle that PACE assessments would be considered senior to all other indebtedness of the property—including existing mortgage debt.

<u>FHFA Influence on Residential PACE</u>
On December 8, 2009, your Board held a hearing and passed a resolution to join the California First residential and commercial PACE program. At the time, the program was designed to fund County staff to oversee implementation of this PACE program. However, on July 2, 2010, the Federal Housing Finance Agency (FHFA) issued a statement asserting that residential PACE programs present "significant safety and soundness concerns" that must be addressed (Attachment B). FHFA's primary concern was – and remains today - that PACE loans in California are established as senior liens and are therefore fundamentally dissimilar to routine tax assessments. Thus, the FHFA determined that these PACE assessments pose significant challenges to mortgage lenders and mortgage securities investors. Based on this directive from FHFA, Fannie Mae and Freddie Mac announced to lenders that they would not purchase mortgages originated on or after July 6, 2010 that were on property with a PACE senior lien obligation. Given this directive from FHFA, the California First PACE residential program was put on hold while efforts through legislation and the courts to reverse the FHFA policy were pursued. Federal concerns regarding mortgage risk were specific to residential PACE programs and did not impact commercial PACE programs from moving forward.

PACE Developments Since 2010

Despite legal challenges by the State of California, the Sierra Club and several local governments, the United States Ninth Circuit Court of Appeals issued a final ruling that upheld the 2010 FHFA directive to Fannie Mae and Freddie Mac. In response to the ruling, Governor Brown signed SB 96 in September 2013 which, among other things, called for the formation of a loan loss reserve program to address the concerns raised by FHFA. This $10 million loan loss reserve program is administered by the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA), to refund mortgage holders for losses associated with a PACE lien on a property.

On May 1, 2014, the Director of FHFA sent a letter to the Governor (Attachment C) indicating that the agency will not change its position on California's senior-lien PACE program despite the loan loss reserve, and will continue to prohibit Fannie Mae and Freddie Mac from purchasing and financing mortgages encumbered with such liens. Additionally, the FHFA letter states "because these loans run with the land, the ongoing monthly assessments for PACE loans are passed on to any subsequent property owners—including after a foreclosure or other distressed sale—unless fully paid off beforehand." FHFA also sent a letter to County Counsel on August 20, 2014 (Attachment D), reiterating the 2010 policy restricting the purchase or refinancing of mortgages in California encumbered by PACE liens.

While the courts determined residential PACE programs' fate, the County of San Luis Obispo explored alternative mechanisms and moved forward with emPower to aid homeowners in making energy efficiency home improvements.

PACE Models

Despite the FHFA opposition, several residential PACE programs are currently operating in California. They are most commonly implemented in one of two ways:

1. **Public Agency Administered**: In this model, a public agency independently designs, develops and administers the necessary actions for program implementation. This may involve creating or joining a joint powers authority (JPA) to facilitate the issuance of municipal bonds and to form the financing district (*e.g. mPOWER Placer County, Sonoma County Energy Independence Program*).

   The benefits of a County administered PACE program include the opportunity to design the program around local economic, social, and environmental needs while generating additional revenue for the County. The Sonoma County Energy Independence Program (SCEIP) pioneered its own residential PACE program in 2009. In addition to offering PACE financing, SCEIP generates jobs for the local workforce, attributing as much as 80% of its financed projects to local contractors.

   To develop and administer a PACE program, the County would undertake significant monetary and labor costs, including operational and technological start-up; administration, implementation, tracking, quality control, marketing, legal and transactional costs of issuing monthly bonds; and complying with accounting and reporting requirements. The County could also be liable for unpaid or delinquent PACE tax assessments unless there is a loan loss reserve set up as part of the program or if there are still funds in the California Alternative Energy and Advanced Transportation Financing Authority loan loss reserve through the California State Treasurer.

2. **Third-Party Administered**: In this model, a public agency joins a JPA to create a financing district via AB 811 or SB 555. A third party designs, develops and implements a PACE program on behalf of the members of the JPA. The JPA membership can be either primary or associate, depending on the location of the agency and the JPA policy (*e.g. HERO, CaliforniaFIRST,Ygrene Works*).

   Third Party Administered PACE programs are a "one-stop-shop" that provides all services including operational, legal, bonding, tracking, technical, contractor, customer support, quality control, and marketing resources. Among the various PACE programs, these services are offered to varying degree with slight differences (See Attachment E). Opting into one of these programs requires minimal staff time and County resources to review the program and pass a resolution.

   Opting into a Third-Party Administered PACE program limits the County's ability to control or influence PACE program operations. Statewide PACE programs may not provide localized customer and contractor support to encourage projects that are consistent with the needs and goals of the County.

PACE financing can be used for a large list of eligible projects related to energy and water efficiency, renewable energy generation, seismic retrofits, and electric vehicle charging stations. As noted before, PACE programs differ from other tax assessments in that they run with the property and are given senior status. It is important to note that while programs are currently operating, the FHFA still maintains a position against this type of financing.

To implement one or more PACE programs, the County should consider the benefits and challenges outlined in this report as well as strategies to influence program operations that complement existing services. If implemented properly, a PACE financing option will complement the robust customer education and workforce development components of the emPower program, provide homeowners with more choice, and help drive overall project demand. In contrast, a PACE program implemented without coordination with the County emPower program may cause homeowner confusion regarding the different energy efficiency financing options. PACE program administrators should work with emPower program administrators to provide regional data as well as consistent and accurate information for homeowners and contractors. The County may consider following the lead of the City of Chula Vista, which developed PACE program guidelines to help ensure the highest levels of accountability and consumer protection for PACE programs seeking to operate in their City.

<u>Other Energy Efficiency Financing Options</u>
Various private lenders and government entities currently offer additional energy efficiency financing options for homeowners in San Luis Obispo County, that require no County involvement. This section briefly describes the most relevant options.

1. **Home Equity Line of Credit.** A Home Equity Line of Credit (HELOC) can be obtained through various lenders and draws upon a homeowner's equity to establish a line of credit that can be used to finance energy efficiency upgrades as necessary. Terms and rates vary by lender and HELOC is generally best used when repayment can be expected in three years or less, as the upfront costs are high and rates tend to be more variable than other financing options for similar purposes.

2. **SESLOC Sustainable Loan.** Local credit union SESLOC offers a Sustainable Loan for its members, which can be used to fund various projects that increase energy and water efficiency or generate renewable energy. The loan can be taken for $1,000 to $30,000 at a term of 7 to 12 years; the rates vary, depending on FICO score and term limit, from 6.49 to 8.99 percent APR. Eligibility depends upon SESLOC internal criteria, which includes FICO score and a steady income source. This loan has no prepayment fees or upfront costs.

3. **Energy Efficiency Mortgage (or Refinancing).** The Federal Housing Administration offers an energy efficiency mortgage or refinancing option to finance energy efficiency improvements for homeowners. The maximum borrowed amount is $8,000 and therefore this option is for smaller appliances and improvements. The mortgage can be repaid for up to 30 years, and the rate varies by lender. In order to be accepted, homeowners must be able to pay 3.5% down and meet other FHA underwriting requirements.

4. **Refinancing general.** With sufficient equity in their homes, most lending institutions offer customers the opportunity to refinance their homes and take advantage of lower interest rates. In the process of creating a new mortgage, homeowners can take cash out of their home value for large purchases or to fund home improvements, including energy efficiency.

See Attachment E, Energy Efficiency Financing Options Comparison Tables for more information.

OTHER AGENCY INVOLVEMENT/IMPACT

Should the County choose to pursue a PACE program, County staff representing the Auditor-Controller, Treasurer-Tax Collector, Planning and Building Department, County Administrative Office and Board of Supervisors may be involved in the process.

FINANCIAL CONSIDERATIONS

Should the County choose to pursue a PACE program, staff will return with a more detailed budget and work program.

RESULTS

This report will enable your Board to consider various options for financing residential energy efficiency upgrades. Access to financing enables residents to make energy efficiency improvements to their properties and result in contributions to a host of environmental, social, and economic benefits, including:

- Improving the comfort, safety, and appearance of the existing housing stock
- Increasing home sales, payroll and property tax revenue for the County
- Stimulating economic activity in the local building industry
- Saving utility rate-payers money by lowering monthly bills
- Helping to comply with and achieve local, state, and federal mandates and conservation goals and;
- Protecting the environment and using scarce resources wisely

ATTACHMENTS

A. emPower 3.0 Strategic Plan Progress and Next Steps, 2013
B. Federal Housing Finance Agency Statement on Certain Energy Retrofit Loan Programs, 2010
C. Federal Housing Finance Agency letter to Governor Brown, Re: California Property Assessed Clean Energy Program, 2014
D. Federal Housing Finance Agency letter to Office of the County Counsel for San Luis Obispo County Re: PACE Lending, 2014
E. Energy Efficiency Financing Options Comparison Table, 2015